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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

VIETNAM . . . . . Page 1

Having driven most of the Binh Xuyen forces out of Saigon, Premier Diem is faced with the delicate political task of retaining the co-operation of his extremist followers on the one hand, and the French and perhaps Bao Dai on the other. Diem is reluctant to break definitely with the ancien regime in view of the importance to his government of the military support which the French can offer and because the ouster of Bao Dai might call into question the legality of his government. [redacted]

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AUSTRIAN TREATY CONFERENCE . . . . . Page 2

The concessions made by Soviet ambassador Ilichev at the third session of the ambassadors' conference in Vienna demonstrate that Moscow intends to get an Austrian treaty signed quickly, with no quibbling over detailed terms. [redacted]

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USSR PLANS NEW MOVES  
IN EUROPE . . . . . Page 3

The USSR is planning to take steps to give East Germany more of the attributes of sovereignty and prepare the way for Soviet diplomatic relations with Bonn. The Soviet bloc security conference meeting in Warsaw on 11 May will probably sign a mutual aid treaty and announce establishment of a unified command as a counter-balance to NATO. [redacted]

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AFGHAN-PAKISTANI  
TENSION MOUNTS . . . . . Page 4

The Kabul radio broadcast of 4 May proclaiming a state of emergency and ordering the mobilization of the armed forces is probably primarily a political move to indicate firm resistance to Pakistani diplomatic measures designed to force Afghan surrender on the Pushtoonistan issue. [redacted]

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FORMOSA STRAITS . . . . . Page 5

There was no significant military activity in the Formosa Straits area this week. The Chinese Communists continue to improve their capabilities in the area.

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SYRIA . . . . . Page 6

The Syrian political situation, which has been relatively quiet while the controversial proposal for a Syrian-Saudi Arabian-Egyptian pact has been under consideration, is again threatening to erupt.

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PART II

NOTES AND COMMENTS

Harassment of West Berlin Continues: The East German government appears to have adopted a policy of intermittent pinpricks against West Berlin designed to make it difficult for the West to take effective countermeasures and to force the West Germans into negotiations with the East German regime at as high a political level as possible. The restrictive devices employed to date are few and relatively minor in comparison with measures the East German government could take to make life in West Berlin difficult.

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Page 1

Japan's Relations With the Sino-Soviet Bloc: Japan's opening position in the talks with the USSR, scheduled to begin in London on 1 June, is taking shape. Prime Minister Hatoyama, in a reversal of his previous statements, declared before the Diet last week that the settlement of such questions as frontier revisions, fishing areas, and the Japanese still held in Siberia was a condition for restoration of diplomatic relations with Moscow.

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Status of Top Soviet Leaders: The arrangement of portraits of the Soviet leaders on May Day demonstrated graphically that Party Secretary Khrushchev enjoys precedence but not unqualified pre-eminence.

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May Day Military Parade in Moscow: The Soviet army showed new or modified artillery, including a 200mm gun-howitzer, at Moscow's May Day parade. Bad weather forced cancellation of the air show, but several new planes appeared in pre-May Day practice flights and 11 new jet heavy bombers were seen in the air at one time. [redacted] . . . Page 3

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[redacted]  
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Cambodia: Under the leadership of Prince Sihanouk, Cambodia is attempting to put a more neutralist face on its foreign policy. The former king's desire to forestall accusations of close identification with Western interests makes him susceptible to efforts by India to bring Cambodia into its sphere of influence. [redacted] . . . Page 5

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USSR Encourages Neutrality in the Near East: The USSR is energetically continuing its campaign, launched in March, to dissuade Near Eastern countries from adhering to the Turkish-Iraqi pact. The campaign combines threats, suggestions that neutrality would have many advantages, and frank efforts to associate the USSR with the Arab cause. [redacted] . . . . . Page 5

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Tito Stalls on Closer Military Ties With West: Yugoslav leaders are resisting Western requests for closer military ties. Although Tito has said that he would give up Western aid rather than start military planning talks now, he still wants American military assistance. [redacted] . . . . . Page 6

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Italian Presidential Election: Giovanni Gronchi's election as president of Italy was a severe blow to the prestige of Premier Scelba and his center coalition government. The election emphasized the splits within and between the present coalition parties, and may presage the formation of a government somewhat to the left of Scelba's. [redacted] . . . . . Page 7

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Iceland Strike Settled: The settlement on 28 April of the 42-day strike of over 7,000 Icelandic workers is a political victory for the Communist and left Socialist elements which dominated the strike. The wage increases granted will probably start a new inflationary spiral and could lead to a devaluation of Iceland's currency. [REDACTED] . . . . .

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Guatemalan Regime Faces Serious Economic and Political Problems: Guatemala's continuing economic difficulties and internal political rivalries are undermining the popularity and strength of President Castillo Armas. Unless the government's financial and political difficulties are eased in the near future, Castillo's position will deteriorate, and coups may be attempted. [REDACTED] . . . . .

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PART III

PATTERNS AND PERSPECTIVES

THE EFFECTS OF THE AUSTRIAN DEVELOPMENTS ON GERMANY . . . . . Page 1

Chancellor Adenauer's pro-Western policies will face a severe test during coming months as a result of the Soviet initiative on an Austrian settlement. There has been no significant growth of neutrality sentiment in West Germany. However, plans for a German settlement modifying Germany's position within the Western defense alliance are being advanced in West Germany and elsewhere in Western Europe. [REDACTED]

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CHINESE COMMUNIST TACTICS IN SOUTHEAST ASIA . . . . . Page 3

Chou En-lai's public commitment at Bandung to peaceful aims and methods strengthens the probability that Peiping will continue to emphasize the conciliatory aspects of its policies toward Southeast Asia. [REDACTED]

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PART I

OF IMMEDIATE INTEREST

VIETNAM

Having driven most of the Binh Xuyen forces out of Saigon, Premier Diem is faced with the delicate political task of retaining the co-operation of his extremist followers on the one hand, and the French and perhaps Bao Dai on the other.

Diem is reluctant to break definitively with the ancien regime in view of the importance of the military support which the French can offer and because the ouster of Bao Dai might call into question the legality of his government.

He is attempting to meet this problem by convoking an "Estates General" of some 1,000 representatives from all parts of the country. He apparently feels that the decisions of this body will establish the legality of his subsequent actions.

The results of the first meeting of the congress on 4 May indicated that a majority of the delegates favored the immediate deposition of Bao Dai, while a minority pressed for the organization of a provisional assembly and cabinet as the first order of business.

The government indicated its moderate approach by proposing a three-point resolution calling for Bao Dai's delegation of powers to a national assembly, the organization of elections within four months, and a pledge by Bao Dai to refrain from appointing a new premier during this period.

The army, through its radio, reserved its position on both Bao Dai and Diem by deferring to the will of the people as expressed through a national assembly or referendum.

French officials in Saigon and Paris contend that Diem is becoming a captive of the "People's Revolutionary Committee" which sprang up during the past week, and that he may become a "Kerensky," with the committee playing the role of Bolsheviks. Allegations that the committee is subject to Viet Minh influence, however, remain unsubstantiated.

The best known figures of the committee are the Cao Dai loyalist general Nguyen Thanh Phuong and Hoa Hao general Nguyen Giac Ngo. These generals, and General Trinh Minh The--since killed in action--have been actively anti-Communist over a period of many years.

The American embassy in Saigon believes these men lack the intelligence to conduct the sort of political campaign which the revolutionary committee has been putting on and suspects that someone else is providing the brains.

The committee's brain-trust appears to consist of persons who have been closely associated with loyal elements of the Cao Dai and Hoa Hao sects. Of the nine members of the committee, two are reported

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to have served with the Viet Minh sometime prior to 1952. Evidence is lacking that any of them has had connections with the Viet Minh since that time.

The committee is hammering away at popular anti-Bao Dai and anti-French themes. Extremism is its stock in trade, and it is thus clearly a threat to the evolution of a stable, nationalist government. Whether Diem will be able to control the committee is not yet clear. He should be able to control it so long as he controls the national army.

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The American embassy in Saigon deems it possible that the Viet Minh may be active at the third or fourth echelon of the committee. The obscurity of the committee's origins and the haste with which it was organized make it relatively vulnerable to Viet Minh infiltration.

However, a Viet Minh broadcast of 1 May described the committee as a "farce."

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AUSTRIAN TREATY CONFERENCE

The concessions made by Soviet ambassador Ilichev at the third session of the ambassadors' conference in Vienna demonstrate that Moscow intends to get an Austrian treaty signed quickly, with no quibbling over detailed terms.

Although some provisions, notably the four-power guarantee for Austria, will probably have to be worked out by the foreign ministers, it now appears that the ambassadors can settle most of the details.

A major shift in Soviet tactics was reflected in

Ilichev's agreement on 4 May to delete Article 17, which sets the maximum size of Austrian armed forces, as well as two other articles restricting military training and stocks of war materiel.

On the previous day, Ilichev had said he was not authorized even to discuss Article 17, and on 1 May Pravda had sharply attacked Western proposals for increasing the maximum limits on the army as an attempt to draw Austria into the Western military bloc.

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Although Austria is not likely to create a large enough army to cause Moscow any serious concern, the USSR certainly has no interest in increasing Austrian forces, and this sudden reversal can only have been intended to dramatize Moscow's willingness to make concessions.

Ilichev also agreed at the third session to delete Article 16, which provides for the repatriation of refugees and displaced persons and bans refugee organizations hostile to

any of the powers. The USSR, which had previously insisted on including this article, agreed to drop it altogether, despite the fact that Western representatives had offered a compromise version.

The Soviet ambassador continued at this session to oppose incorporating the Soviet economic concessions granted to Austria during the Moscow talks in Article 35, which covers this subject. [redacted]

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**USSR PLANS NEW MOVES  
IN EUROPE**

The USSR is planning several modifications in its European policy in response to the final ratification of the Paris accords and the ending of the occupation of West Germany.

A Soviet bloc security conference, with China attending as an observer, will meet in Warsaw on 11 May. The eight countries participating are expected to sign the treaty of friendship and mutual aid and establish the unified command first threatened at the Moscow conference last December and negotiated during February and March.

Moscow apparently now intends to take formal action establishing a counterpart to NATO and facilitating the retention of troops in the satellites following an Austrian treaty.

In order to match the abolition of the West German

occupation, the USSR may announce new measures of "sovereignty" for East Germany, the most likely step being the abolition of the Soviet High Commission. The demise of this already moribund institution would not necessarily affect Soviet control of East Germany or relations with Allied officials in Germany.

A formal announcement of the creation of an East German army appears likely either as a prelude to or in conjunction with the Warsaw conference.

A possible date for the announcement of any such measures in East Germany would be 8 May, the tenth anniversary of V-E day. It is reliably reported that the Communists are planning a major propaganda barrage then, with a large rally and parade in East Berlin and speeches by East German leaders emphasizing the need for greater production and defense efforts in East Germany to meet the challenge of the Paris accords.

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With the successful Austrian mission to Moscow in the background, the USSR may soon repeat its 15 January offer to the West German government to establish diplomatic relations. Preliminary pressures on West Berlin (see Part II, p. 1) are part of the general Soviet drive to force West Germany to come to terms with Moscow and the East German regime.

The USSR probably will encourage visits to Moscow by nongovernmental Bundestag groups and hold out the prospect of returning German prisoners of war. The USSR admits holding only a few thousand POW's. West German estimates run as high as 17,000 in addition to civilian internees. [redacted]

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AFGHAN-PAKISTANI TENSION MOUNTS

The Kabul radio broadcast of 4 May proclaiming a state of emergency is presumably the

Afghan reaction to Pakistan's closing on 1 May of its consulates in Afghanistan and its request for the closing of Afghan consulates and trade missions in Pakistan. The broadcast announced the mobilization of the armed forces and the calling up of certain reserve classes. Kabul also has recalled its chargé in Karachi.

These Afghan moves are probably designed partly to indicate firmness in the face of Pakistani diplomatic measures aimed at forcing Afghan surrender on the Push-toonistan issue.

The moves were probably also intended to discourage any attempt by Afghan tribal groups to march on Kabul and loot the city as is customary in time of unrest. A few tribesmen had to be turned back north of Kabul following the looting of the Pakistani embassy there on 30 March.



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There is no indication that mobilization of the 62,000 ineffective Afghan forces was ordered in preparation for an armed attack on Pakistan or because of fear of invasion from Pakistan.

Pakistani government officials have informed the American embassy that they are prepared to break off diplomatic relations and to close the Afghan border if Kabul does not respond by 15 May to their demands for restitution for the recent looting of the Pakistani embassy there.

Closing of the border would cut Afghanistan off from its normal routes to the sea and virtually end its trade with the West.

The primitive Afghan economy can probably carry on indefinitely even if most normal trade channels are blocked, as it did during World War II. Strong action by Pakistan in the near future would, however, probably cause the Afghan government at least to review its trade with the USSR in an effort to determine whether a closer relationship were necessary or advisable.

The Afghan government has to date given no indication that it intends to comply with Pakistani demands, despite the fact that it is under pressure from several other Asian nations.

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FORMOSA STRAITS

There was no significant military activity in the Formosa Straits area this week. The Chinese Communists continued to improve their capabilities in the area.

Peiping may intend to refrain from major assaults while exploring the possibility of negotiations with the United States. However, the Communists may at any time assault minor offshore islands in order to keep up some degree of pressure for negotiations.

India's V. K. Krishna Menon is going to Peiping soon to try to clarify the Chinese Communist position on negotiations. The British chargé in Peiping, instructed to make similar inquiries, has not been received by Chou En-lai.

There are contradictory reports as to whether the Chinese Communists, in the interest of improving the atmosphere for negotiations, intend to release any of the detained Americans in the near future.

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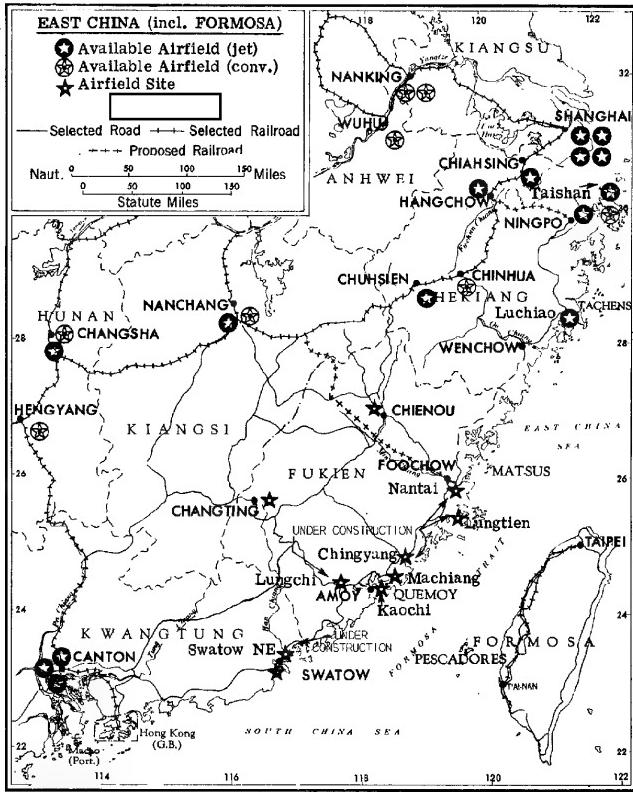
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Chinese Communist public statements continue to take a hard line on substantive issues which any negotiations might discuss. Peiping maintains that there is no need for a cease-fire, as the United States and Communist China are not at war.

Similarly, Peiping asserts that Formosa is an "internal" question, thus implying that its status is not negotiable. The Chinese Communists allege that the only "international" question is that of American "intervention," thus suggesting that the only matter to negotiate is that of a withdrawal of American forces from the China area.



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SYRIA

The Syrian political situation, which has been relatively quiet while the controversial proposal for a Syrian-Saudi Arabian-Egyptian pact has been under consideration, is again threatening to erupt.

The assassination of Assistant Chief of Staff Malki on 22 April continues to produce severe repercussions. His military partisans--the army clique led by Chief of Staff Shuqayr and backed by the leftist Arab Socialist-Resurrection-

ist Party (ASRP)--are endeavoring to force civilian authorities to provide legal cover for taking revenge on the Syrian Social National Party (SSNP), which they hold responsible for the murder.

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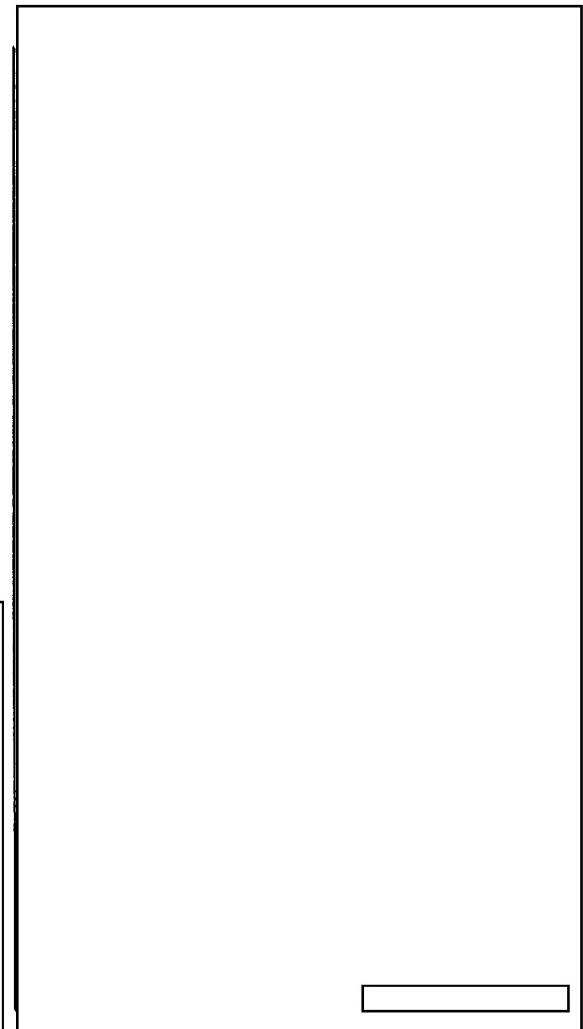


In the face of these tactics, the opposition--consisting chiefly of the ailing president, a Nationalist Party minority in the cabinet, and conservative senior army officers--is fighting only a rear-guard action.

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## PART II

NOTES AND COMMENTSHarassment of West Berlin Continues

The East German government appears to have adopted a policy of intermittent pin-pricks against West Berlin designed to make it difficult for the West to take effective countermeasures and to force the West Germans into negotiations with the East Germans at as high a political level as possible. The restrictive devices employed to date are few and relatively minor in comparison with measures the East German government could take to make life in West Berlin difficult.

Two additional truckloads of scrap metals have been confiscated by the East Germans; four truckloads of cable drums have been impounded, two of which have been released; and a load of ball bearings has been removed from a railway car at Marienborn and confiscated.

On 26 April the East German police started weighing all trucks at the Marienborn check point on the Helmstedt Autobahn and imposing fines of 50 marks per 100 kilograms of overload. Road traffic to Berlin, however, is still moving at generally normal levels, because of continued subsidies by the West German government.

American officials in Berlin predict that within the next few days 20 to 25 additional East German "scrap specialists" will probably be deployed to various water and rail check points. This may lead to additional minor harassments.

The East German government has clarified its position somewhat regarding negotiations on the truck toll. An editorial in Neues Deutschland on 30 April suggests that if the Federal Republic will agree to talks between representatives of the Transport Ministries, the East Germans will agree that the rank of the negotiators could be below the deputy minister level.

The West Germans are anxious to keep the problem within the framework of inter-zonal trade talks, but are willing to add transport experts to these meetings. They are flatly opposed to holding high-level talks that might be construed as recognition of East German sovereignty.

Soviet high commissioner Pushkin agreed on 30 April to discuss the Berlin truck toll problem with the Western high commissioners. He insisted, however, that because the toll was not levied against the motor transport of the occupation powers, it was not within their competence to settle and was a matter for negotiation between East and West Germany.

Pressure from West German businessmen may force Bonn to taper off its selective embargo on shipments to East Germany. Trade circles feel that Western stoppage of East German shipments through Hamburg would be as effective a form of pressure and would not injure the Federal Republic's trade. [redacted]

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Japan's Relations  
With the Sino-Soviet Bloc

Japan's opening position in the talks with the USSR, scheduled to begin in London on 1 June, is taking shape. Prime Minister Hatoyama, in a reversal of his previous statements, declared before the Diet last week that the settlement of such questions as frontier revisions, fishing areas, and the Japanese still held in Siberia was a condition for restoration of diplomatic relations with Moscow.

Hatoyama had insisted previously that Japan should first restore relations with Moscow and then talk about any outstanding issues. His present attitude more nearly coincides with the views of his foreign minister, Mamoru Shigemitsu.

The Japanese are fully prepared for Soviet stalling on outstanding questions, however, and will give ground about a month after the talks start and call for an exchange of ambassadors, according to one report. The Japanese would then pursue their bargaining in hopes of obtaining some commitments from the USSR.

In a move to strengthen the Japanese delegation at the talks, Haruhiko Nishi, ambassador to Australia, will be appointed to fill the now vacant ambassadorial post in Great Britain. A senior official of the Tokyo Foreign Ministry states that Nishi has had considerable experience with Soviet affairs and, with Shunichi Matsumoto, will form a "strong team."

The Chinese Communists are continuing their efforts to maneuver the Japanese government into de facto relations.

Chou En-lai told Japan's delegate to the Afro-Asian conference that his government was prepared to repatriate Japanese still in China but that there would have to be something more than informal talks.

A similar Chinese strategem was frustrated when the Japanese government refused to guarantee the execution of an \$84,000,000 trade plan signed on 4 May by a private Japanese organization. Tokyo also refused to grant diplomatic recognition to a proposed Chinese trade mission, despite pressure from Diet groups, Japanese traders, and the Communists themselves.

Nevertheless, the trade plan--concluded only after Hatoyama agreed to extend his co-operation--pushed Japan one step further toward recognition of the Peiping government. The two parties agreed in the plan to hold sample fairs and exchange permanent trade missions. The inclusion of embargoed items in the trade plan will increase pressure on the Japanese government to work for an early relaxation of CHINCOM controls.

Prime Minister Hatoyama reportedly is sending a personal message to Mao Tse-tung stating that Japan wishes to accord diplomatic recognition to Communist China and that he favors a policy of coprosperty and coexistence with China. Such a message would be hardly more than a friendly gesture since Hatoyama, who favors a "two Chinas" concept, fully recognizes that diplomatic recognition at this time would be premature.

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This action contrasts with Hatoyama's recent Diet speeches in which he went out of his way to emphasize that Japan's basic policy is to maintain close ties with the United States. It illustrates

his working assumption that Japan can maintain friendly relations with the Sino-Soviet bloc without endangering the benefits derived from Japan's alliance with the United States.

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Status of Top Soviet Leaders

The Soviet leaders' portraits were apparently arranged on May Day to convey the impression that Party Secretary Khrushchev enjoys precedence but not unqualified pre-eminence. Premier Bulganin's picture displaced that of Khrushchev in first place in some of the displays, but the party secretary appeared in the number-one spot more often than the premier.

Malenkov's portrait was placed at or near the end of the gallery. He was third in line, however, when the presidium members mounted the Lenin-Stalin tomb, and was shown standing between Khrushchev and Kaganovich in the pictures published in the Soviet press the following day.

These minor inconsistencies may have been designed to show that Malenkov's demotion denoted a realignment of po-

litical power but has not undermined the stability of the collective leadership.

Neither N. N. Shatalin, who is still formally a party secretary, nor N. M. Shvernik, a candidate member of the party presidium and chief of the Soviet trade unions, appeared at the ceremonies.

Shvernik was last seen in public on 9 February and Shatalin on 21 February, and their absence on May Day strengthens the supposition that neither is presently active in his post.

There have been unsubstantiated reports that Shvernik, an Old Bolshevik who is now nearly 68, is ill. Nothing has been heard of Shatalin, regarded as a protégé of Malenkov, and it is likely that he has been removed from the key post he held in the area of personnel appointments.

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May Day Military Parade  
In Moscow

Unfavorable weather forced cancellation of the air portion of the military demonstration in Moscow on May Day, but the Soviet army displayed new or modified artillery.

The main new item of equipment was a 200mm gun-howitzer

with a modified recoil system, mounted on a single-wheeled carriage and towed by a heavy-tracked prime mover. The army attaché reports that this is the same piece originally seen in a rehearsal and thought to be of 240mm caliber.

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This suggests that the weapon is not an entirely new departure, since the estimated caliber is more nearly consistent with previously employed Soviet artillery. The mounting, however, represents an improvement in mobility over the heavy artillery pieces now in use by Soviet field forces.

Improvements in carriage were probably also incorporated in the new or modified 122mm antitank guns and 152mm gun-howitzers displayed in the parade. In addition, sixteen 122mm AA guns were displayed. This is the largest number of these new Soviet heavy anti-aircraft weapons seen at one time by American observers, although the sighting of small numbers of them in convoys in Moscow since late 1954 had suggested that they were to be added to the air defenses of the Soviet capital.

There was no air show, but several new planes had previously appeared in practice flights.

Eleven new jet heavy bombers (BISON) were seen in a single rehearsal flight. Analysis of aircraft numerals indicates, however, that as many as 13 different planes may have been involved in preparations for May Day. Formation flights of this type aircraft were noted in eight of the 11 practice flights observed by Western officials.

Three of the new four-engine turboprop swept-wing aircraft, designated BEAR by Western intelligence, participated in one of the last rehearsals.

Preliminary analysis tends to support evaluations of this plane as a bomber rather than as a cargo or tanker aircraft.

The USSR may have intended to demonstrate advances in air defense as well as offensive air capabilities, inasmuch as a new twin-jet swept-wing all-weather fighter and a new single-jet fighter were also seen in pre-parade rehearsals.

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Cambodia

Under the leadership of Prince Sihanouk, Cambodia is attempting to put a more neutralist face on its foreign policy. The former king--whose political activities since his abdication have increased rather than diminished--is quoted as saying at the Bandung conference that his country had definitely aligned itself with "the community of neutralist nations, including India and Burma."

Through this and similar actions, Sihanouk apparently is attempting to counteract, both in the minds of his neighbors and of his own people, any thought that Cambodia's ties

with the West will become too restrictive. Although the prince during his recent visit to New Delhi subscribed to the "five principles of peaceful coexistence," his firm anti-Communist policy in internal affairs has never been questioned.

Sihanouk's desire to preserve his country's new-found independence and forestall accusations of close identification with Western interests makes him susceptible, however, to efforts by India to bring Cambodia into its sphere of influence, and thus may ultimately damage Cambodia's relations with the West.  

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USSR Encourages Neutrality in the Near East

The USSR is continuing energetically its campaign, launched in March, to dissuade Near Eastern countries from adhering to the Turkish-Iraqi pact.

The campaign combines threats, suggestions that neutrality would have many advantages, and frank efforts to associate the USSR with the Arab cause.

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The USSR has made several gestures to strengthen its position in the Near East since the Soviet communique of 16 April which promised a "positive attitude" toward any steps by Near Eastern countries to adhere to the "five principles of coexistence" in their relations with the USSR.

Radio Moscow, commemorating on 26 April the 35th anniversary of Kemal Ataturk's proposal for establishing relations with the USSR, quoted Ataturk as having said that the 1921 Soviet-Turkish "Agreement of Friendship and Brotherliness" had brought only "goodness and benefits" to the Turks. The broadcast, which

was mild in comparison with recent Soviet propaganda on Turkey, noted that this belief assumes special importance now, "when relations between the Soviet Union and Turkey are in a state which makes their adjustment desirable."

Following indications at Bandung of the Communist bloc's willingness to take an anti-Israeli position in the Palestine dispute, Soviet officialdom thoroughly shunned the national day reception given by the Israeli ambassador in Moscow on 27 April. This display of official Soviet antipathy to Israel cannot have been lost on the Arab diplomatic colony.

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Tito Stalls on Closer Military Ties With West

In recent talks with the British and American ambassadors, Tito strongly emphasized that Yugoslavia is not interested in expanding its military ties with the West at this time. He said he wished to continue co-operation with the United States, but he told British ambassador Roberts on 21 April that he would give up Western aid rather than start military planning talks now.

Yugoslav leaders admit that Western requests for greater Yugoslav military

co-operation are justified, but claim that these requests pose a real political dilemma for the regime. They fear that further military ties with the West would be inconsistent with Belgrade's long-sought role of serving as a bridge between East and West, and providing leadership to other countries detached from the power blocs.

Tito acknowledged that his lessening interest in additional military planning with the West results from an obvious difference between

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Yugoslavia and the West in appraising the world situation. He suggested that some time this summer it would be useful to hold a conference between Yugoslavia and the Western powers to discuss their respective appraisals of the situation.

The Yugoslavs believe that world tensions have relaxed to such a degree that efforts should now be concentrated on trying to solve East-West problems by negotiations rather than by building up a "line of bunkers."

Tito spoke of a "technical conference" with the United States, by which he probably meant a discussion of Yugoslavia's previously presented "shopping list" for additional aid. He pressed for such a meeting soon despite the American ambassador's insistence that it would have little point.

Tito promised to iron out difficulties the United States has encountered in supervising distribution of goods under its aid program in Yugoslavia. His attitude suggested that he wanted the present relationship

to continue, although without enlargement in scope.

With his proposals for a "situation appraisal" conference later, and a "technical conference" now, Tito apparently hopes to avoid for the present Western pressure for strengthening military ties. He probably believes that delay may allow world tensions to abate sufficiently to make the whole question academic.

Should world tensions again increase, the Yugoslavs are probably confident that their importance to the West would be great enough to ensure Western support whether or not Yugoslavia makes further commitments at this time.

For the present the Yugoslavs are probably content with the security commitments explicit in the Balkan alliance and implicit in their military aid relationships with the big Western powers. Within the Balkan pact, they have continued to improve field-level co-operation with the Greeks in their common area of concern, but have rejected further links to NATO through the pact. [redacted]

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Italian Presidential Elections

The election on 29 April of Giovanni Gronchi, 67-year-old left-wing Christian Democratic president of the Chamber of Deputies, as president of Italy was a victory for the parties of the left. The election outcome was largely the result of internal quarrels within the Christian Democratic Party, and is a severe blow to the prestige of Premier Scelba and his center coalition government.

Gronchi's political career goes back to 1919, when he was one of the original leaders of Don Sturzo's Popular Party, the forerunner of the present Christian Democratic Party. He served in Mussolini's first government, but soon joined the opposition and was expelled from parliament in 1926. He joined the Anti-Fascist Resistance in 1942, and since World War II has been a member of

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the National Council of the Christian Democratic Party. He was minister of industry and commerce from 1944 to 1946, and became president of the Chamber of Deputies in 1948.

Gronchi represents those who favor a government "opening to the left." He has been a consistent advocate of Christian Democratic collaboration with all "democratic" factions, in which he would include the Nenni Socialists. He has long argued that the way to reduce Communist strength in Italy is to undertake a vigorous and far-reaching reform program.

The presidential election, which Gronchi won on the fourth ballot with 658 out of a possible 843 votes, revealed a deep split within the Christian Democratic Party.

The right and left factions of the party refused to support the official party candidate, Senate president Merzagora, in the early ballots. The Christian Democratic leadership and some rightist elements finally threw their votes to Gronchi in order to hide the fact that otherwise he would have been elected primarily by Nenni Socialist and Communist votes. Some 90 Christian Democrats apparently refused to the very end to follow party directives.

The Scelba cabinet will submit its resignation on 12 May, when Gronchi is inaugurated. Parliament is apparently determined to get the government off its present "dead center" and to break the stalemate blocking implementation of any effective program, and it may therefore decide on a change of premier, looking toward a shift either to the left or the right.

Gronchi's personal choice for premier would probably be a Christian Democrat, perhaps Budget Minister Ezio Vanoni, whose economic plan the Nenni Socialists have already offered to support.

Other possible premiers include Chiristian Democratic Party president Zoli, a non-controversial figure whose selection would be considered a temporary arrangement, and former premier Pella, a right-wing Christian Democrat, who is generally regarded as a temporizer.

In any case, the parliament's decision will almost certainly be made strictly in terms of domestic policies. While the next government may be somewhat to the left of Scelba's, no change is anticipated in Italy's pro-Western foreign policy. [redacted]

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Iceland Strike Settled

The settlement on 28 April of the 42-day-long strike of over 7,000 Icelandic workers is a political victory for the Communists and left Socialist elements which dominated the strike. The wage increases granted will probably start a new inflationary spiral and could lead to a devaluation of Iceland's currency.

The strike settlement, which was evidently brought on by the threat of a walkout in refrigeration plants, provides for a total wage increase of 16 percent.

The employers will pay 13 percent, including a 10-percent rise in the basic hourly wage, while the national

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and local governments will contribute 3 percent to the new unemployment insurance fund which the strike settlement provides for. The new agreements are valid until June 1956.

The settlement is a victory for the workers. The unions initially demanded wage increases of 30 to 40 percent, but were reported prepared from the start to accept about 15 percent. The employers insisted until late April that they would not go beyond 8 percent.

The Communists and the left-wing Socialist leaders of the Icelandic Federation of Labor (IFL), who started and controlled the strike action, will be able to extract much propaganda value from the settlement. The general strike of 1952, when the IFL was controlled by the right-wing Socialists, was settled by the enactment of measures by the government which reduced the

cost of living by about 3 percent, but without any actual increase in wages.

The Communists will be encouraged to capitalize on their newly won prestige to pursue their objective of attempting to create a new political bloc of all labor elements under the aegis of the IFL. Their ultimate objective is to gain control of the government.

The new wage scales will shortly become effective for all workers in Iceland. Without additional government subsidies, which do not now appear likely, these increases will raise the already high production costs.

Increased pressure for devaluation of the currency in order to maintain the competitive position of Icelandic fish and fish products in world markets is almost certain to follow.

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Guatemalan Regime Faces Serious Economic and Political Problems

Guatemala's continuing economic difficulties and internal political rivalries are undermining the popularity and strength of President Castillo Armas. Unless the government's financial and political problems are eased in the near future, Castillo's position will deteriorate, and coups may be attempted.

A start toward economic recovery evident early this year was suddenly reversed in mid-February with the drop in world prices for coffee, which has accounted for up to 80 percent by value of the country's exports in recent years.

Unemployment remains high and there are growing signs of labor discontent.

The government, which has pledged itself to do more in two years than the previous Communist-influenced governments did in ten, is in financial straits. Whereas the Arbenz regime spent \$90,000,000 during its last year in office, the Castillo government is expected to be able to budget only about \$59,000,000 for the coming year. American grant aid thus far approved in principle would raise the total to about \$72,000,000.

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Factionalism in the army and government also hinder the development of stable government. Resentment is believed to be still strong among regular army officers displaced by veterans of Castillo's "Army of Liberation," who now hold most top military positions.

The "liberation" faction also controls many high civilian posts, and apparently aspires to even greater control. Critical of Castillo's middle-of-the-road policies, this group has exerted strong pressure on him to "clean up once and for all" what it considers potential centers of opposition in the army and government.

During April there was a marked increase in rumors of serious divisions within the government, and some evidence that these rumors originated with the "liberation" faction. This evidence of growing suspicions and jealousies may presage a new government shake-up.

If rumors of unrest continue to grow in intensity and the economy remains depressed, ambitious individuals, within and outside the administration, will probably feel encouraged to plot Castillo's overthrow. [redacted]

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## PART III

PATTERNS AND PERSPECTIVESTHE EFFECT OF THE AUSTRIAN DEVELOPMENTS ON GERMANY

Chancellor Adenauer's pro-Western policies will face a severe test during coming months as a result of the Soviet initiative on an Austrian settlement.

There has been no significant growth of neutrality sentiment in West Germany. However, plans for a German settlement modifying Germany's position within the Western defense alliance are being advanced in West Germany and elsewhere in Western Europe.

Bundestag leaders generally feel the public recognizes the vast differences between the Austrian and German situations, although there may be a small rise in neutralist sentiment if and when an Austrian treaty is actually concluded.

Public attention in West Germany is now fixed on the terms for German unification which Moscow may propose at the hoped-for East-West conference this summer. In previous conferences the Soviet Union has always been handicapped in its efforts to sway German opinion by the basic West German distrust of the Kremlin's intentions and declarations. An Austrian settlement would modify this distrust somewhat, since it would be regarded as evidence of Soviet willingness to conclude agreements on major European issues, perhaps even such as would call for withdrawals of Soviet troops.

In the Soviet-Affiliated struggle over German unity and neutrality, the fundamental issues remain: (1) how an all-German government should be formed and (2) whether that government should be free to join alliances.

While all West German political parties are at present agreed that free elections are indispensable as a first step toward unification, there is considerable disagreement on the question of alliances. Adenauer's Christian Democratic Union is the only strong advocate of the principle that freedom to join alliances must be a condition for unity.

The opposition Social Democrats have openly stated that the Paris accords should be bartered away at the next four-power meeting, and that neutrality should be accepted in return for the holding of free all-German elections. There are indications that some factions of the minor coalition parties are susceptible to this argument.

Adenauer, speaking through his personal envoy in London, stated last week that in the light of Austrian developments and expected Soviet maneuvers, the West cannot at the next big-power meeting simply repeat its 1954 demands for free elections and freedom to form alliances and hope to retain the firm support of German public opinion.

Adenauer fears that at the four-power conference the Soviet Union would ostensibly accept the principle of free elections as the first step toward unification, hoping to have it rejected because it would be premised on Germany's neutralization. A summary rejection of such a proposal would put the onus on the West for any failure of the conference and would gravely weaken the chancellor's position.

The chancellor has suggested that the West offer to

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include the Soviet Union and its Satellites in a new security system encompassing all of Europe, Canada, and the United States. The proposal calls for arms limitation, inspection of defense establishments, and a system of nonaggression and mutual assistance agreements. West Germany's present NATO commitments would not be affected by the plan.

By offering guarantees against future German aggression, Adenauer hopes to demonstrate that the Soviet Union has no valid excuse for insisting on German neutrality, and is only using the alliance issue as a pretext for preventing German unification. To his critics who claim the USSR will never release East Germany because East Germany would then only be added to the Western military potential, the chancellor has already hinted that the East zone should be demilitarized following unification.

Privately Adenauer and his advisers state that unity is probably unattainable at this time. The chancellor believes his government will be in a better position to deal with the problem of unification several years hence when an East-West detente may be possible.

Adenauer considers that his most important task at present is to get his country firmly established within its present alliances. He believes that if he can win the 1957 federal elections, future administrations will not attempt to break these Western ties.

During the next several months, Adenauer's policies will undergo severe tests. Not only will an Austrian

settlement create some public confidence in Soviet proposals at the projected conference, but the ratification of the Paris accords and the advent of rearmament have already occasioned something of a now-or-never attitude on unity in West Germany. In addition, public opinion has always been susceptible to the idea of a neutrality commitment in order to obtain free elections.

The Bonn government, however, will probably not deviate from its present course unless Moscow is willing to accept virtually intact the Western terms for unification.

The locus of power in the Federal Republic remains fixed in the hands of a government leader who is determined to avoid neutrality and whose great popularity completely eclipses that of any other public figure. Public opinion polls in 1954 showed that the West German people were willing to accept neutrality in exchange for free all-German elections--but only on the condition that the West guarantee such an arrangement.

The West Germans continue to assert that unity is Bonn's foremost goal, but it is apparent that they do not want to risk their present security to attain it. In a large measure the chief issue in the Federal Republic is not unity, but prosperity.

As long as the Adenauer government makes reasonable moves to counteract Moscow's unity propaganda and there is no drop in living standards, the government will probably be able to keep the nation within its Western alliances.

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**CHINESE COMMUNIST TACTICS IN SOUTHEAST ASIA**

Chou En-lai's public commitment at Bandung to peaceful aims and methods strengthens the probability that Peiping will continue to emphasize the conciliatory aspects of its policies toward Southeast Asia.

In dealing with Southeast Asia, Communist China has generally followed two parallel lines: one has been conciliatory, featuring repeated declarations of peaceful intentions and a desire for normal relations with all the countries of Asia; the other has been threatening.

While it has increased its military capabilities in South China, Peiping has pointed out the "dangers" of military alliances among Asian nations, particularly those including Western powers. Communist propaganda has singled out the Thai government for criticism as a puppet of American imperialism, and last summer former Thai premier Pridi Phanomyong, now in exile in Peiping, was permitted to broadcast this theme over Peiping radio.

In recent weeks, Chinese Communist propaganda has suppressed the more threatening aspects of the approach to Southeast Asia in favor of an intensified attack on American motives and intentions toward the area.

The Afro-Asian conference provided Premier Chou En-lai with an excellent opportunity to stress the conciliatory aspects of Communist China's policy.

In speeches to the conference and in private statements to Southeast Asian delegates, Chou denied charges that Communist China has designs on Southeast Asia. He said in his first speech that "China has no intention whatever of

subverting the government of its neighboring countries."

Chou made vigorous attempts at Bandung to reassure the Southeast Asian countries. Even Thailand and the Philippines, the most Western-oriented of those countries, were objects of these efforts.

**Thailand and the Philippines**

In his speech to the conference on 23 April, Chou said that fear of China on the part of Thailand and the Philippines was quite natural "since we lack mutual understanding." He added that "we have given assurances to Prince Wan of Thailand and General Romulo of the Philippines that we will not engage in any aggression or make direct threats against Thailand or the Philippines."

Viet Minh foreign minister Pham Van Dong backed up Chou's moves by agreeing on the resettlement of Vietnamese refugees in northeast Thailand.

Chou invited representatives of Thailand to visit Yunnan Province to assure themselves that Peiping was not permitting the training of a guerrilla force for the eventual "liberation" of Thailand. Prince Wan has indicated that he cannot make the trip but has not denied the possibility that a delegation may be sent.

In spite of the fact that the two countries "have no common border," Chou also invited a delegation from the Philippines to visit Communist China, especially Fukien and Kwangtung Provinces, to see that Communist China has no aggressive intentions toward the Philippines.

**Indochina**

Chou reiterated assurances given at Geneva that Communist

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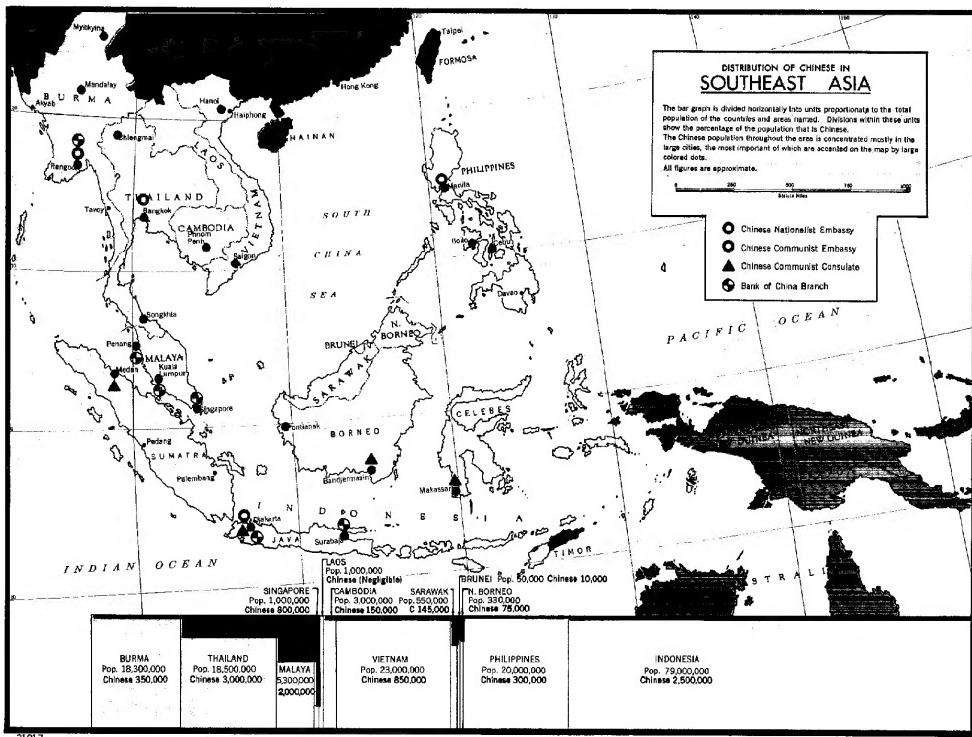
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China would not intervene in the internal affairs of the Indochinese states, mentioning Laos and Cambodia specifically. He was silent on Vietnam. He said China's policy toward these states was typical of its policy toward all countries.

Both Nehru and Chou were present when the delegations

India indicated its interest in Laos and Cambodia by recognizing Cambodia last December and sending a consul general to Laos in January. Nehru appears resigned to the eventual absorption of South Vietnam by North Vietnam as a result of the elections scheduled to take place in July 1956.



of North Vietnam and Laos reached their understanding that the question of the Communist-led Pathet Lao forces would be considered an internal affair of Laos. Pham and Laotian premier Katay expressed the hope that the problem could be settled in accordance with the "five principles." The presence of Nehru and Chou suggests a tacit Indian-Chinese Communist agreement on the countries' interests in Southeast Asia.

Indonesia

Chou pointed out to other Southeast Asian countries what he said were the advantages of the treaty on dual nationality which was concluded between China and Indonesia during the Afro-Asian conference. It was hinted that other countries with substantial Chinese minorities might obtain similar agreements if they recognized Communist China.

After Bandung, Chou remained in Indonesia on a two-day

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state visit during which he was accorded unusual honors. Chou and President Sukarno signed a joint statement affirming the "five principles" of co-existence, thus associating Indonesia with India and Burma, which arrived at similar understandings with Peiping last summer.

The Chou-Sukarno statement included a declaration of the "inalienable right" of any people "to safeguard their sovereignty and territorial integrity."

Burma

Peiping apparently also improved its relationship with Burma during the conference. Chou stayed in Rangoon both going to and coming from Bandung, and talked at length with Premier U Nu.

Chou's conciliatory attitude appears to have lulled the suspicions of some of the Bandung delegates whose governments have been most hostile to Peiping. Both Prince Wan and General Romulo have testified to their belief in Chou's "sincerity." They were also made to feel that Chou's apparent relaxation of his position on the Formosa issue was due in part to efforts by themselves and other Asian states to seek a peaceful solution to the problem. The premiers of Laos, Pakistan, and Ceylon expressed similar sentiments.

Future Policies

Chou's public commitment at Bandung to peaceful aims and methods increases the likelihood that Peiping will continue to be cautious in its policies toward Southeast Asia in order to avoid alienating any substantial portion of Asian opinion. Communist China is likely to rely primarily on normal diplomatic procedures in dealing with those countries with which it has formal relations and to continue efforts to establish such relations with other countries.

Peiping's assistance to North Vietnam provides an opportunity for indirect Chinese influence in the adjacent areas of South Vietnam, Laos, and Cambodia. For example, direct aid to North Vietnam facilitates Viet Minh support of Pathet Lao activities in northern Laos. Chinese Communist encouragement of subversion in other parts of Indochina will probably also come through the agency of the Viet Minh. Thailand is also susceptible to subversion through Communist-supported forces in Laos.

Even in areas of Southeast Asia which are hostile to Communist China, it is likely that Peiping will limit itself to promoting Communist objectives covertly through indigenous movements in order to deflect charges of interference in the internal affairs of other countries.  

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